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THE SEMICONDUCTOR CHIP PROTECTION ACT EXTENSION OF 1987

JUNE 9, 1987.—Ordered to be printed

Mr. BIDEN, from the Committee on the Judiciary, submitted the following

REPORT

[To accompany S. 442]

The Committee on the Judiciary, to which was referred the bill (S. 442) having considered the same, reports favorably thereon with an amendment in the nature of a substitute and recommends that the bill, as amended, do pass.

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I. PURPOSE

The Semiconductor Chip Protection Act Extension of 1987 amends Section 914(e) of Title 17 of the United States Code, to extend for three years the authority of the Secretary of Commerce to issue interim orders providing protection in the United States to semiconductor chip designs first commercially exploited outside the United States. It also amends Section 902(a)(2) of Title 17 of the United States Code, to codify the President's authority to suspend, revise or revoke proclamations issued pursuant to the Semiconductor Chip Protection Act of 1984.

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S523-2.

II. History

Semiconductor chip designs are the essence of the worldwide computer revolution and have changed forever the way we live. Indeed, these microscopic marvels have propelled communication, transportation, health care, and information systems toward the 21st century.

The Semiconductor Chip Protection Act of 1984 (SCPA) established a new form of intellectual property protection particularly suited to the needs and special characteristics of semiconductor chips. With the adoption of the SCPA, the United States became the first nation to enact a law specifically to protect mask works or semiconductor chip layout designs fixed in semiconductor chip products. The subject matter of protection is defined in 17 U.S.C. Section 901(a)(2).

As originally passed by the House, the SCPA would have denied protection to foreign owners of mask works unless the works were first commercially exploited in the United States, or were the product of a national of a country that had earned a proclamation similar to that described in 17 U.S.C. 902. While it was contemplated that foreign countries would eventually obtain full protection through presidential proclamations, by concluding treaties or by enacting chip protection legislation, no protection was available in the interim other than by transferring rights to a U.S. national or domiciliary before first commercial exploitation. In order to encourage international comity in mask work protection, Senators Charles McC. Mathias and Patrick Leahy worked with Representative Robert Kastenmeier to devise a mechanism that provided interim protection for the nationals of those foreign countries that worked to develop a mask work protection scheme comparable to that of the United States (see 17 U.S.C. 914).

III. Discussion

A. SECTION 914 INTERIM PROTECTION ORDERS

1. Record since adoption

Section 914 of Title 17 of the United States Code gives the Secretary of Commerce authority to extend the privilege of interim protection under the SCPA to nationals of foreign countries under certain conditions. See October 3, 1984 Cong. Rec. at 12919 (joint explanatory statement of Senators Mathias and Leahy). These are:

(1) that the foreign nation in question is making progress (either by treaty negotiations or legislative enactment) toward a regime of mask work protection generally similar to that under the Act;

(2) that its nationals and persons controlled by them (such as subsidiaries or affiliated companies) are not engaging and have not in the recent past engaged in chip piracy or the sale of products containing pirated semiconductor components; and

(3) that entry of the Secretary's order would promote the purposes of the Act and international comity in mask work protection.

The Secretary's authority to issue interim protection expires on November 8, 1987, 3 years after the date of enactment of the SCPA.

Congress adopted a 3-year transitional period with relatively few restrictions in order to encourage foreign nations either to enact laws that protect mask works owned by U.S. nationals or to enter into an international treaty that similarly protects U.S. chips.

As Senator Leahy noted when he introduced S. 442, "this carrot and stick approach—we will protect your country's work so long as you make speedy progress toward laws protecting ours—has been effective.". Developments in the international community since enactment of the SCPA indicate that Congress has been successful in its effort to foster international chip protection. According to the Report of the Operation of the International Transitional Provisions of the Semiconductor Chip Protection Act of 1984 submitted to Congress pursuant to 17 U.S.C. 914 on November 7, 1986 by the Honorable Ralph Oman, Register of Copyrights, and the Honorable Donald Quigg, Assistant Secretary and Commissioner of Patents and Trademarks (Oman-Quigg Report), 16 countries—the 12 members of the European Economic Community, plus Japan, Sweden, Canada, and Australia—had earned interim U.S. protection for their chip designs through Section 914. On April 8, 1987, Switzerland became the 17th nation to earn interim protection through Section 914.

The record before the Committee indicates that intellectual property experts and the American semiconductor industry are satisfied with the way the SCFA has fostered international chip protection. Gadbaw, R. Michael and Benz, Steven F., "The Semiconductor Chip Protection Act of 1984—Experience in the Utilization of the Law and Current International Developments," 8 European Intellectual Property Review 229 (1986). In his testimony to the Judiciary Committee's Subcommittee on Technology and the Law, Commissioner Quigg stated:

> The developments during the past two years have pointed out the inherent balance of the SCPA. It balances not only the exclusive rights of mask work owners and the public interest in the broad dissemination of the fruits of research and development, but also domestic and international interests. Congress sought to foster development of international comity in mask works protection through the operation of Section 914, and our experience thus far suggests that it has been successful.

Ronald Reiling, Corporate Counsel to Digital Equipment Corp., speaking on behalf of the Semiconductor Industry Association (SIA), similarly observed that:

> SIA believes that the process initiated by [the SCPA] has been highly favorable to the international recognition of mask work rights.

Mr. Reiling also noted that while sovereign nations consider implementing chip protection out of a clear perception of their own national interest:

> The opportunity [Section 914] affords to other countries to obtain the immediate protection of United States law in return for allowing the U.S. to review and comment upon

> the evolution of their law has proven irresistible to a number of key countries.

2. Extending the term of availability of interim orders

Congress expected the 3-year transition period to afford other countries sufficient time to enact legislation or to negotiate an international treaty governing mask work protection. While many hoped that other countries would be able to complete their work within 3 years because the U.S. law would serve as a guideline, it often takes a long period of time for a legislative body to study a piece of legislation as complex as the SCPA. Even though good-faith efforts to develop chip protection laws have been taken by at least the 17 countries to which interim orders have been extended, many of those nations will not have completed their work before the transition period ends.

Congress need not demand that every nation complete its work toward a law protecting chips by November 1987. The Committee agrees with the observation in the Oman-Quigg Report that:

> [T]he political process in some European states may be complicated by parliamentary elections which would delay progress on chip legislation. Even if all of the states to whom orders were extended were to pass new legislation by the November 8, 1987, deadline such legislation would not likely come into effect immediately.

In addition, by holding foreign nations to the November 1987 deadline, Congress might undermine efforts underway in those countries that have not yet chosen to seek interim protection.

Finally, Congress would not want to put the President in the position of being asked by one of our trading partners for a Section 902 proclamation solely because that nation might otherwise be cut off from the SCPA's protection.

Presidental proclamations should be granted only after a nation complies a record indicating that it qualifies for the privilege of full protection that it qualifies for the privilege of full protection under U.S. law. Ordinarily, extensive domestic and international consultations would precede the issuance of a proclamation. It would be unwise for Congress to put the President into a position where he may be asked to issue a Section 902 proclamation precipitously.

For the foregoing reasons, the Committee concludes that it is in the best interest of the United States for the Congress to extend the Secretary's authority under 17 U.S.C. 914.

3. Duration of extension

Having concluded that the Secretary's authority under Section 914 should be extended, the Committee considered the appropriate length of such an extension. The measure cosponsored by Senators Patrick Leahy, Dennis DeConcini, Gordon Humphrey, and Orrin Hatch provided for a 3-year extension. There was some discussion of a 4-year extension and some commentators suggested an indefinite extension so long as no nation received an interim order last-

ing more than 18 months, or so long as no nation received a cumulative period of interim protection exceeding 5 years.

The Committee decided that a 3-year extension was most consistent with the goals of the legislation enacted in 1984. When the SCPA was drafted, the principal authors hoped that 3 years would offer an opportunity for interim protection that lasted long enough to provide some realistic incentive to foreign chip designers. Coincidentally, it had to be short enough to encourage foreign nations to expeditiously enact a law protecting chips.

The same balancing of considerations is applicable today. The Committee does not want foreign nations to conclude that the 100th Congress is less serious than its predecessor about encouraging active steps toward adoption of chip protection laws in as many countries as possible. Nor does the Committee want foreign semiconductor producers to believe that interim protection could be available indefinitely. Indeed, it is possible that by November 1990, as this legislation expires, the Senate will have before it a multilateral treaty governing the international protection of semiconducter chips rather than another extension of the Secretary's authority to issue interim protection.

For the foregoing reasons, the Committee concludes that it is in our country's best interest for the Congress to extend for 3 years the Secretary's authority to issue interim protection orders under Section 914.

4. Negotiations toward a multilateral treaty on chip protection

The Committee notes that the World Intellectual Property Organization (WIPO) has prepared a draft treaty for the protection of integrated circuit designs and has convened three meetings of a Committee of Experts to study and modify the intitial draft. The draft treaty would allow for protection of mask works or the layout design of integrated circuits under either copyright or sui generis national law, with the minimum requirement that the layout design be created independently without copying and not be commonplace or dictated by function.

The social and economic reasons for the protection of mask works are as persuasive in the international context as in the domestic context. Simple justice requires protection against unfair practices. The creator of an original work deserves protection against unauthorized copying. Economically, a creator has no incentive to create new designs unless those new designs are protected from copying. In addition, a creator will be more likely to grant the authority to use or copy the integrated circuit design if a royalty is forthcoming. Often, this royalty is then invested to cover the cost of improving the original creation.

The protection of integrated circuits through an international treaty also promotes the acquisition of foreign technology, particularly by developing countries. A creator will be more willing to place a new design into the stream of international commerce if assured of a return on investment. Moreover, because of the complexity of the production process for integrated circuit chips, the transfer of technology is faster and more reliable if reproduction and manufacture are done with the cooperation of the creator. Copying without authorization requires considerable effort to understand

the chip and duplicate it, and the expense may greatly exceed the amount payable for a license.

The draft treaty would also allow each contracting state to limit rights through the provisions on reverse engineering and innocent infringement. In fact, these provisions invalidate arguments that compulsory or non-voluntary licenses are needed to assure technology transfer. The draft treaty grants four exclusive rights to the proprietor of a layout design of an integrated circuit. They are the rights to—

(1) copy the original layout design;

(2) incorporate the original layout-design in a manufactured integrated circuit;

(3) import, sell or otherwise distribute such integrated circuits; and

(4) incorporate such integrated circuits in industrial articles, and to import, sell or otherwise distribute such industrial articles.

Contracting states are required to prevent any infringement of these rights. States can be expected to prevent infringement through seizure, injunction, penal sanctions and civil remedies, but no particular sanctions are specified. Each country may choose the measure that is appropriate under its legal system, with the only requirement being that the measure deter unlawful acts.

Generally, the draft treaty requires only a 10-year term of protection. The term of protection runs from the date of registration in a contracting state or commercial exploitation anywhere in the world. Ten years is believed to be the time needed to derive from the use and licensing of an integrated circuit design fair compensation for the effort that went into its creation.

The draft treaty was discussed in detail at the april 27–April 30, 1987, session of the Committee of Experts where substantial progress toward achieving agreement on the language was made. The United States and several other countries supported the view that on technical issues, enough agreement had been reached to warrant holding a diplomatic conference for adoption of a multilateral treaty.

In fact, the United States offered to host a diplomatic conference in 1988 in Washington. In September 1987 the governing bodies of the conventions administered by WIPO will decide whether to hold a diplomatic conference or to have another meeting of the Committee of Experts.

B. REVOCABILITY OF PRESIDENTIAL PROCLAMATIONS

1. Section 902 of the SCPA

Section 902 of Title 17 of the United States Code provides that foreign mask works are eligible for full protection under U.S. law whenever the President finds that a foreign nation extends to mask works of owners who are nationals of the United States treatment substantially equivalent to that provided by the SCPA, or on substantially the same basis as is provided to works of its own nationals. Alternatively, the foreign nation can qualify for reciprocity by becoming a signatory to a treaty to which the United States is a party that provides mask work protection.

2. Presidential proclamations

Section 902(a)(2) authorizes the President to issue proclamations conferring full protection under the SCPA to foreign mask works if one of two conditions are met. First, paragraph 2(A) provides that reciprocal eligibility may be established upon a finding that a foreign nation extends protection to mask works of U.S. origin on substantially the same basis as it protects mask works of its own nationals and domiciliaries and mask works first commercially exploited in that nation. Second, even where the foreign state accords to its nationals a higher level of protection to mask works, paragraph 2(B) provides that reciprocal eligibility may still be established if the protection accorded U.S. owners is "on substantially the same basis as provided in [the SCPA]."

The SCPA was patterned in significant ways after the 1976 Copyright Act. Unlike the model contained in Section 104(b)(4) of the Copyright Act, the SCPA did not expressly provide for the revocability of Presidential proclamations issued under Section 902(a)(2).

The Subcommittee on Technology and the Law decided to amend S. 442 to add to section 902(a)(2) language identical to that contained in the Copyright Act. Such language expressly provides that the President may "revise, suspend or revoke" a proclamation if conditions warrant. Cf. 17 U.S.C. 104(b)(4) (1987).

This revocation language does not broaden the President's authority. It simply codifies a power already within the President's authority under the SCPA. In their testimony before the Subcommittee, intellectual property experts from the Copyright Office, Commerce Department, State Department, and private industry unanimously stated that under current law, the President is authorized to revoke or otherwise modify a proclamation conferring protection under the SCPA if the basis for its issuance were to change. For example, at the February 26, 1987, hearing, Mr. William Milam, Deputy Assistant Secretary of State, testified:

> It is inherent in Section 902 that the President can revoke as well as issue a proclamation extending protection to another country if conditions change.

Commissioner Quigg added that Section 902 Presidential proclamations "would be governed by their own terms, and could be revoked on grounds stated in the proclamation."

The Committee is cognizant that foreign nations given the benefit of Presidential proclamations under other statutes have not always protected U.S. rights as promised. See, e.g., 1 Nimmer, The Law of Copyright 5.05[B][2][e] (1986).

In the rapidly evolving and highly competitive area of semiconductor chip manufacturing, nonprotection of American mask works for even a limited period of time could have enormously negative effects upon U.S. industry. The principal sponsors of the SCPA believe that nonprotection of American mask works by beneficiaries of Section 902 Presidential proclamations cannot be tolerated.

The Subcommittee on Technology and the Law included the revocation language in the amended version of S. 442 to underscore its desire that the President monitor diligently the faithful enforcement of semiconductor chip protection laws by the foreign states or

nations whose nationals have received protection under Section 902.

As Senator Leahy pointed out during the Subcommittee's consideration of the amendment, this language also sends a clear message to the beneficiaries of Section 902 Presidential proclamations. It says that they must not only enact their own laws, but must also faithfully enforce them if they wish to continue reaping the benefits of American law.

For the foregoing reasons, the Committee concludes that it is in the best interest of the United States for the Congress to codify the President's authority to suspend, revise, or revoke a proclamation issued pursuant to the SCPA.

The Section 914 hearing process has become an important forum for the international dissemination of information and the exchange of views on the appropriate form and terms of protection for semiconductor designs. The extended term of protection made available for Section 902 makes consideration of a Presidential proclamation an even more important process.

Therefore the policy of openness to public comment should be continued in the Section 902 process. Although not required by the current legislation, representatives of the foreign government requesting protection under a Section 902 proclamation should make materials supporting that request available to the public.

Administration witnesses supported formal notice and comment for Section 902 applications. In response to questions from Senator Leahy, Commissioner Quigg made the commitment to the Technology and the Law Subcommittee hat the Commerce Department would issue regulations governing Section 902 applications before considering such an application. Since the hearings, the Patent and Trademark Office, in response to written questions from Subcommittee Chairman Leahy, indicated that it is drafting guidelines for Section 902 applications and that the draft guidelines are similar to those in place for Section 914.

IV. Agency Views

During the Technology and the Law Subcommittee's hearings on the SCPA, representatives from the Commerce and State Departments as well as the Copyright Office expressed support for legislation that would extend the authority of the Secretary of Commerce to issue interim orders under 17 U.S.C. 914. They also expressed support for the Subcommittee's effort to codify the President's authority to suspend, revise or revoke proclamations issued pursuant to 17 U.S.C. 902. See testimony of Donald Quigg, Commissioner of Patents and Trademarks; William Milam, Deputy Assistant Secretary of State; and Ralph Oman, Register of Copyrights.

V. Cost Estimate

On April 9, 1987, the Committee received the following letter from the Congressional Budget Office.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, April 9, 1987.

Hon. JOSEPH R. BIDEN, Jr.,
Chairman, Committee on the Judiciary,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed S. 442, a bill to amend section 914 of title 17, United States Code, regarding certain protective orders, as ordered reported by the Senate Committee on the Judiciary on April 8, 1987.

CBO estimates that enacting S. 442 result in no significant additional costs to the federal government, based on information provided by the Patent and Trademark Office. The bill would extend, for an additional three years, the authority of the Secretary of Commerce to grant protection to foreign semiconductor chip producers; this authority is scheduled to expire on November 8, 1987.

No costs would be incurred by state or local governments as a result of enactment of this bill.

If you wish further details on this estimate, we will be pleased to provide them.

With best wishes,

Sincerely,

EDWARD M. GRAMLICH, *Acting Director.*

VI. REGULATORY IMPACT STATEMENT

In compliance with paragraph 11(b), Rule XXVI, of the Standing Rules of the Senate, the Committee concluded that no significant additional regulatory impact or impact on personal privacy would be incurred in carrying out the provisions of this legislation. After due consideration, the Committee concluded that enactment of the bill would not create any significant additional paperwork.

VII. VOTE OF COMMITTEE

On April 2, 1987, the Subcommittee on Technology and the law, a quorum being present, reported S. 442 to the Committee on the Judiciary—with an amendment in the nature of a substitute—by voice vote. On April 8, 1987, the Judiciary Committee, a quorum being present, and without objection heard, approved the amendment in the nature of a substitute. The Committee then favorably reported S. 442, as amended, by voice vote.

VIII. CHANGES IN EXISTING LAW

In compliance with paragraph 12 of Rule XXVI, of the Standing Rules of the Senate, changes in existing law made by S. 442 as reported are shown as follows (existing law proposed to be omitted is enclosed in brackets, new matter is printed in italic, and existing law in which no change is proposed is shown in roman):

UNITED STATES CODE

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TITLE 17—COPYRIGHTS

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CHAPTER 9—PROTECTION OF SEMICONDUCTOR CHIP PRODUCTS

Sec.
901. Definitions.
902. Subject matter of protection.

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914. International transitional provisions.

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§ 902. Subject matter of protection

(a)(1) Subject to the provisions of subsection (b), a mask work fixed in a semiconductor chip product, by or under the authority of the owner of the mask work, is eligible for protection under this chapter if—

(A) on the date on which the mask work is registered under section 908, or is first commercially exploited anywhere in the world, whichever occurs first, the owner of the mask work is (i) a national or domiciliary of the United States, (ii) a national, domiciliary, or sovereign authority of a foreign nation that is a party to a treaty affording protection to mask works to which the United States is also a party, or (iii) a stateless person, wherever that person may be domiciled;

(B) the mask work is first commercially exploited in the United States; or

(C) the mask work comes within the scope of a Presidential proclamation issued under paragraph (2).

(2) Whenever the President finds that a foreign nation extends, to mask works of owners who are nationals or domiciliaries of the United States protection (A) on substantially the same basis as that on which the foreign nation extends protection to mask works of its own nationals and domiciliaries and mask works first commercially exploited in that nation, or (B) on substantially the same basis as provided in this chapter, the President may by proclamation extend protection under this chapter to mask works (i) of owners who are, on the date on which the mask works are registered under section 908, or the date on which the mask works are first commercially exploited anywhere in the world, whichever occurs first, nationals, domiciliaries, or sovereign authorities of that nation, or (ii) which are first commercially exploited in that nation. *The President may revise, suspend, or revoke any such proclamation or impose any conditions or limitations on protection under a proclamation.*

(b) Protection under this chapter shall not be available for a mask work that—

(1) is not original; or

(2) consists of designs that are staple, commonplace, or familiar in the semiconductor industry, or variations of such designs, combined in a way that, considered as a whole, is not original.

* * * * * * *

§ 914. International transitional provisions

(a) Notwithstanding the conditions set forth in subparagraphs (A) and (C) of section 902(a)(1) with respect to the availability of protection under this chapter to nationals, domiciliaries, and sovereign authorities of a foreign nation, the Secretary of Commerce may, upon the petition of any person, or upon the Secretary's own motion, issue an order extending protection under this chapter to such foreign nationals, domiciliaries, and sovereign authorities if the Secretary finds—

* * * * * * *

(d)(1) Any order issued under this section shall terminate if—

(A) the Secretary of Commerce finds that any of the conditions set forth in paragraphs (1), (2), and (3) of subsection (a) no longer exist; or

(B) mask works of nationals, domiciliaries, and sovereign authorities of that foreign nation or mask works first commercially exploited in that foreign nation become eligible for protection under subparagraph (A) or (C) of section 902(a)(1).

(2) Upon the termination or expiration of an order issued under this section, registrations of claims of protection in mask works made pursuant to that order shall remain valid for the period specified in section 904.

(e) The authority of the Secretary of Commerce under this section shall commence on the date of the enactment of this chapter, and shall terminate [three years after such date of enactment.] *on November 8, 1990.*

* * * * * * *

IX. Text of S. 442

That Section 914(e) of title 17, United States Code, is amended by striking out "three years after such date of enactment" and inserting in lieu thereof "on November 8, 1990".

Sec. 2. Section 902(a)(2) of title 17, United States Code, is amended by adding at the end thereof the following: "The President may revise, suspend, or revoke any such proclamation or impose any conditions or limitations on protection under a proclamation.".

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